

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY & EXHIBITS

OF

JOHN O. POWERS, CPA

OCTOBER 8, 2014



DOCKET NO. 2014-5-G

**Annual Review of Purchased Gas Adjustment and
Gas Purchasing Policies of South Carolina Electric
& Gas Company**

1 **DIRECT TESTIMONY OF**
2 **JOHN O. POWERS, CPA**
3 **FOR**
4 **THE OFFICE OF REGULATORY STAFF**
5 **DOCKET NO. 2014-5-G**
6 **IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND**
7 **GAS PURCHASING POLICIES OF**
8 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**
9

10 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
11 **OCCUPATION.**

12 **A.**My name is John O. Powers. My business address is 1401 Main Street,
13 Suite 900, Columbia, South Carolina, 29201. I am employed by the South
14 Carolina Office of Regulatory Staff (“ORS”) as an Auditor.

15 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
16 **EXPERIENCE.**

17 **A.**In 2006, I received a Bachelor of Science Degree from the University of
18 South Carolina. Following an internship at McGregor and Company, a state-wide
19 South Carolina CPA firm, I enrolled in Western Carolina University in 2009 to
20 obtain a Master of Accountancy. While attending Western Carolina, I was
21 employed by Buncombe County, North Carolina as an Internal Auditor where I
22 participated in risk evaluation, internal control audits, and cost saving strategies. I
23 received a Master of Accountancy in August 2010 from Western Carolina

1 University. In October 2010, I began my employment with ORS and since then
2 have been involved in cases dealing with the regulation of gas,
3 telecommunications, low level radioactive waste disposal, and water and
4 wastewater companies. On September 29, 2014, I received my CPA license from
5 the South Carolina Board of Accountancy.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING SOUTH**
7 **CAROLINA ELECTRIC & GAS COMPANY, IN THIS DOCKET?**

8 **A.** In Docket No. 87-426-G, Order No. 87-898, dated August 14, 1987, the
9 Public Service Commission of South Carolina ("Commission") instituted an
10 annual examination of the Purchased Gas Adjustment ("PGA") and Gas
11 Purchasing Policies of South Carolina Electric & Gas Company ("SCE&G" or the
12 "Company"). In accordance with the above referenced Order, ORS Audit Staff
13 has examined the Company's PGA for the period of August 1, 2013 through July
14 31, 2014 ("review period"). The purpose of my testimony is to present ORS
15 Audit Department's findings and recommendations resulting from our
16 examination of the Company's PGA for the review period.

17 **Q. WHAT ARE THE MOST RECENT COST OF GAS FACTORS FILED**
18 **WITH THIS COMMISSION?**

19 **A.** In PGA Docket No. 2006-5-G, Order No. 2006-679, dated November 13,
20 2006, the Company was authorized to adjust its cost of gas factors on a monthly
21 basis, for a "material difference" defined as \$0.01, or more, per therm in any cost
22 of gas factor beginning with the first billing cycle of each month. In Docket No.
23 2009-5-G, Order No. 2009-910, dated December 29, 2009, the amount designated

as a "material difference" was increased to an amount greater than \$0.04 per therm. During the review period these factors were adjusted during the months of September 2013, and January of 2014. The Company's Demand Cost of Gas Factors ("DCOG") and Commodity Cost of Gas Factors ("CCOG") were as listed below:

<u>DCOG Per Therm</u>	<u>As of July 31, 2013</u>	<u>As of July 31, 2014</u>
Residential	\$0.21248	\$0.19765
Small/Med. General Service	\$0.14144	\$0.14456
Large General Service	\$0.12486	\$0.13722
<u>CCOG Per Therm</u>	\$0.40143	\$0.42572

Q. DID ORS CONDUCT AN EXAMINATION OF THE COMPANY'S PGA (OVER)/UNDER COLLECTION CALCULATIONS?

A. Yes. ORS examined the Company's cumulative PGA (over)/under collection calculations for the review period and traced amounts to the books and records of the Company.

Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR CAUSE TO BE PREPARED, CERTAIN EXHIBITS?

A. Yes. Audit Exhibit JOP-1 through Audit Exhibit JOP-3 are attached to my testimony.

Q. PLEASE EXPLAIN AUDIT EXHIBIT JOP-1 AND WHAT IS REFLECTED IN THAT EXHIBIT.

1 A. Audit Exhibit JOP-1 presents, for each month of the review period, the
2 components which comprise the cumulative PGA (over)/under collection. These
3 components are:

4 **Commodity (Over)/Under Collection** – These amounts represent the difference
5 in the Company's actual firm commodity costs, on a monthly basis, compared to
6 the firm commodity benchmark PGA filings during the review period. The
7 commodity (over)/under collection for the review period increased the under-
8 collection by \$13,361,695.

9 **Demand (Over)/Under Collection** – These amounts represent the difference in
10 the actual demand charges incurred by the Company as compared to demand
11 charges billed and collected from customers. The demand (over)/under collection
12 for the review period decreased the under-collection by \$7,469,877.

13 **Uncollectibles – Commodity Only** – In Order No. 2006-679 dated November 13,
14 2006, issued in Docket No. 2006-5-G, the Company was authorized to recover its
15 uncollectible gas costs through the commodity cost of gas, beginning with the
16 first billing cycle in November 2007. This process allows the Company to
17 recover the correct amount of uncollectible gas cost expense that it has actually
18 incurred. Uncollectible gas cost expense for the review period increased the
19 under-collection by \$198,489.

20 **Unbilled Revenue Adjustments** – In compliance with Order No. 2009-910 dated
21 December 29, 2009, issued in Docket No. 2009-5-G, the Company converted the
22 PGA administration process from a cycle-month sales calculation basis to a
23 calendar month sales calculation basis. This process has the effect of more

1 precisely matching calendar month gas costs with the sales of that month's gas.
2 Unbilled revenue adjustments were applied to the demand component of the cost
3 of gas factor. The net unbilled revenue adjustment for the review period
4 decreased the under-collection by \$48,729.

5 **Interest/Carrying Cost** - In accordance with Order No. 2006-679, carrying cost
6 is computed using the rate of interest, as of the first day of each month, for 10-
7 year U.S. Government Treasury Bills plus an all-in spread of 65 basis points, not
8 to exceed 6%, and shall not be applied to (over)/under-collection balances in
9 excess of \$20 million. The computed carrying costs for the review period
10 increased the under-collection by \$165,199. The interest rates used to calculate
11 carrying costs during the review period have been verified to those published in
12 the Wall Street Journal on the first day of each month.

13 **Q. PLEASE EXPLAIN AUDIT EXHIBIT JOP-2 AND WHAT IS**
14 **REFLECTED IN THAT EXHIBIT.**

15 **A.** Audit Exhibit JOP-2 shows the detail of gas held in interstate pipeline
16 storage facilities during the review period. ORS has verified injections and
17 withdrawals, by month, for each of the storage facilities on the Southern and
18 Transco interstate pipelines. The Southern system's Contract Storage Service
19 ("CSS") has two facilities: Muldon, located in Prairie County, Mississippi and
20 Bear Creek, located in Bienville Parish, Louisiana. The Transco system has four
21 facilities: General Storage Service ("GSS") located in Potter and Clinton counties,
22 Pennsylvania; Eminence Storage Service ("ESS") located in Covington County,
23 Mississippi; a Liquefied Natural Gas Storage Service ("LG-A") located in

1 Carlstadt, New Jersey; and Washington Storage Service ("WSS") located in St.
2 Landry Parish, Louisiana. For the review period, total storage injections were
3 7,251,712 dekatherms at a total cost of \$32,775,438 which converts to a weighted
4 average injection rate of \$4.52 per dekatherm. Withdrawals totaled 5,762,965
5 dekatherms at a total cost of \$23,208,023 which converts to a weighted average
6 withdrawal rate of \$4.03 per dekatherm. Total interstate pipeline storage
7 inventory at July 31, 2014 equaled 4,599,328 dekatherms with a total cost of
8 \$21,440,973, or a weighted average cost of \$4.66 per dekatherm.

9 **Q. PLEASE EXPLAIN AUDIT EXHIBIT JOP-3 AND WHAT IS**
10 **REFLECTED IN THAT EXHIBIT.**

11 **A.** Audit Exhibit JOP-3 details, by month, total Liquefied Natural Gas
12 ("LNG") inventory activities for the Salley and Bushy Park facilities. ORS has
13 verified these inventories to the books and records of the Company. These
14 inventories are reported on a thousand cubic feet ("MCF") basis. This exhibit
15 summarizes all the activity affecting LNG inventory including boil-off,
16 vaporization, liquefaction, derime gas, gas lost to atmosphere, volume
17 adjustments, and direct costs capitalized. Capitalized costs at both facilities
18 consist mostly of expenses associated with the liquefaction capability at the
19 Bushy Park facility. LNG inventory on July 31, 2014 totaled 1,323,296 MCF at a
20 total cost of \$7,657,813 or a weighted average rate of \$5.79.

21 **Q. PLEASE EXPLAIN THE STATUS OF THE COMPANY'S HEDGING**
22 **PROGRAM.**

1 **A.** Commission Order 2012-39, issued January 12, 2012, ordered that
2 SCE&G's hedging program be suspended effective on the date of the order. The
3 last of the Company's outstanding hedges settled on January 10, 2013.

4 **Q. WHAT ARE ORS'S FINDINGS REGARDING THE COMPANY'S PGA**
5 **(OVER)/UNDER COLLECTION?**

6 **A.** Based on our examination, it is the opinion of ORS that the Company's
7 PGA under collection at July 31, 2014 of \$9,110,847, shown on Company witness
8 Robinson's Exhibit No. _____ (RMR-1), is accurately stated.

9 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

10 **A.** Yes, it does.

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2014-5-G
PURCHASED GAS ADJUSTMENT (OVER)/UNDER COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2014

	2013					2014							Total
	August	September	October	November	December	January	February	March	April	May	June	July	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance	2,904,054	4,247,362	6,356,026	8,057,744	7,038,962	5,401,380	645,911	2,994,049	2,255,071	2,776,478	4,766,231	6,600,196	
Commodity (Over)/Under Collection	(599,111)	16,723	841,482	4,769,618	2,339,997	6,867,597	603,554	2,664,591	(2,951,085)	(576,375)	(438,637)	(176,659)	13,361,695
Demand (Over)/Under Collection	1,887,431	2,173,745	2,068,424	180,506	(3,053,319)	(5,366,259)	(5,966,719)	(3,857,037)	(1,132,334)	1,219,384	2,071,136	2,305,165	(7,469,877)
Uncollectibles-Commodity Only	18,513	1,644	(1,074)	(5,289)	1,238	1,462	1,734	9,855	27,239	46,145	48,189	48,833	198,489
Unbilled Revenue Adjustment	24,355	(100,679)	(1,228,537)	(5,983,464)	(942,012)	(6,260,038)	7,701,346	437,298	4,569,986	1,288,227	135,822	308,967	(48,729)
Ending Balance Before Interest	4,235,242	6,338,795	8,036,321	7,019,115	5,384,866	644,142	2,985,826	2,248,756	2,768,877	4,753,859	6,582,741	9,086,502	
Interest/Carrying Cost	12,120	17,231	21,423	19,847	16,514	1,769	8,223	6,315	7,601	12,372	17,455	24,329	165,199
Ending Balance	4,247,362	6,356,026	8,057,744	7,038,962	5,401,380	645,911	2,994,049	2,255,071	2,776,478	4,766,231	6,600,196	9,110,831	
Interest Rate	3.434%	3.262%	3.199%	3.393%	3.680%	3.295%	3.305%	3.370%	3.294%	3.123%	3.182%	3.213%	

Purchased Gas Adjustment (Over)/Under Collection as of 7/31/14 **\$ 9,110,831**

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2014-5-G
STORAGE INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2014

TOTAL INTERSTATE PIPELINE STORAGE

	Injections			Withdrawals			Balance		
	DT's	Price	Amount	DT's	Price	Amount	DT's	Amount	Wtd. Cost
	#	\$	\$	#	\$	\$	#	\$	\$
Beg. Bal.							3,110,581	11,873,558	3.81715
Aug-13	491,431	3.55964	1,749,318	(99,168)	3.78377	(375,229)	3,502,844	13,247,647	3.78197
Sep-13	657,162	3.73767	2,456,255	(85,116)	3.76176	(320,186)	4,074,890	15,383,716	3.77525
Oct-13	549,265	3.70262	2,033,719	(195,489)	3.75616	(734,287)	4,428,666	16,683,148	3.76708
Nov-13	605,619	3.69326	2,236,711	(582,858)	3.74020	(2,180,006)	4,451,427	16,739,853	3.76056
Dec-13	527,581	4.08317	2,154,203	(848,606)	3.73694	(3,171,186)	4,130,402	15,722,870	3.80662
Jan-14	1,080,617	4.61021	4,981,870	(1,640,986)	3.79206	(6,222,712)	3,570,033	14,482,028	4.05655
Feb-14	925,388	5.94901	5,505,141	(793,596)	4.06384	(3,225,044)	3,701,825	16,762,125	4.52807
Mar-14	734,074	5.07382	3,724,561	(1,059,819)	4.55265	(4,824,982)	3,376,080	15,661,704	4.63902
Apr-14	604,667	4.70490	2,844,899	(183,458)	4.68562	(859,614)	3,797,289	17,646,989	4.64726
May-14	333,164	4.88032	1,625,947	(100,331)	4.69448	(471,002)	4,030,122	18,801,934	4.66535
Jun-14	527,539	4.73699	2,498,946	(42,797)	4.71260	(201,685)	4,514,864	21,099,195	4.67327
Jul-14	215,205	4.47884	963,868	(130,741)	4.75819	(622,090)	4,599,328	21,440,973	4.66176
	<u>7,251,712</u>	<u>4.51968</u>	<u>32,775,438</u>	<u>(5,762,965)</u>	<u>4.02710</u>	<u>(23,208,023)</u>			
Total Interstate Pipeline Storage as of 7/31/14							<u>4,599,328</u>	<u>21,440,973</u>	<u>4.66176</u>

SOUTH CAROLINA ELECTRIC AND GAS COMPANY - DOCKET NO. 2014-5-G
LNG INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2014

TOTAL LNG STORAGE

	Boil-off			Vaporization			Liquefaction			Derime Gas	
	MCF	Rate	Amount	MCF	Rate	Amount	MCF	Rate	Amount	MCF	
	#	\$	\$	#	\$	\$	#	\$	\$	#	
Aug-13	(34,376)	6.103444	(209,812)	(1,281)	6.521468	(8,354)	170,028	3.489602	593,330		0
Sep-13	(35,960)	5.779894	(207,845)	0	0.000000	0	193,962	3.659191	709,744		0
Oct-13	(33,023)	5.504527	(181,776)	0	0.000000	0	172,376	3.619147	623,854		0
Nov-13	(28,533)	5.358602	(152,897)	0	0.000000	0	74,458	3.639743	271,008		0
Dec-13	(31,642)	5.337242	(168,881)	(2,256)	5.527926	(12,471)	0	0.000000	0		0
Jan-14	(30,780)	5.366764	(165,189)	(643,073)	5.628548	(3,619,567)	0	0.000000	0		0
Feb-14	(27,257)	5.433577	(148,103)	(156,961)	5.645536	(886,129)	0	0.000000	0		0
Mar-14	(28,857)	5.473923	(157,961)	(28,556)	5.648585	(161,301)	0	0.000000	0		0
Apr-14	(26,671)	5.461438	(145,662)	0	0.000000	0	133,384	4.678792	624,076		0
May-14	(40,094)	5.345089	(214,306)	0	0.000000	0	198,374	4.869630	966,008		0
Jun-14	(41,538)	5.409360	(224,694)	0	0.000000	0	206,307	4.717688	973,292		0
Jul-14	(40,645)	5.463280	(222,055)	0	0.000000	0	216,057	4.471825	966,169		0
Totals	(399,376)	5.506543	(2,199,181)	(832,127)	5.633542	(4,687,822)	1,364,946	4.196123	5,727,481		0

	Gas Lost To Atmosphere			Volume Adjustment			Direct Costs Capitalized Amount \$	Ending Balance		
	MCF	Rate	Amount	MCF	Rate	Amount		MCF	Rate	Amount
	#	\$	\$	#	\$	\$		#	\$	\$
Reg. Bal.										
Aug-13	(633)	6.064771	(3,839)	0	0.000000	0	40,485	1,228,072	6.478072	7,955,539
Sep-13	0	0.000000	0	0	0.000000	0	28,418	1,361,810	6.144285	8,367,349
Oct-13	0	0.000000	0	0	0.000000	0	76,353	1,519,812	5.854452	8,897,666
Nov-13	0	0.000000	0	0	0.000000	0	41,542	1,659,165	5.675202	9,416,097
Dec-13	0	0.000000	0	0	0.000000	0	4,382	1,705,090	5.615979	9,575,750
Jan-14	0	0.000000	0	(36,106)	5.232371	(188,920)	59,250	1,635,086	5.632646	9,209,860
Feb-14	0	0.000000	0	0	0.000000	0	21,579	961,233	5.705541	5,484,354
Mar-14	0	0.000000	0	0	0.000000	0	3,459	777,015	5.754974	4,471,701
Apr-14	(1,480)	5.479054	(8,109)	0	0.000000	0	60,131	719,602	5.775273	4,155,898
May-14	0	0.000000	0	0	0.000000	0	209,852	824,835	5.681541	4,686,334
Jun-14	0	0.000000	0	0	0.000000	0	262,591	983,115	5.744890	5,647,888
Jul-14	0	0.000000	0	0	0.000000	0	254,622	1,147,884	5.801176	6,659,077
Totals	(2,113)	5.654520	(11,948)	(36,106)	5.232371	(188,920)	1,062,664	1,323,296	5.786924	7,657,813

Total LNG Storage as of 7/31/14

1,323,296 5.786924 7,657,813